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DEPARTMENT OF AUDITOR-CONTROLLER**

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November 13, 2007

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **WATTS HEALTHCARE CORPORATION – A DEPARTMENT OF  
PUBLIC HEALTH HIV/AIDS PREVENTIVE CARE AND CARE  
SERVICES PROVIDER**

We have conducted a fiscal review of Watts Healthcare Corporation (WHC or Agency), a Department of Public Health (DPH) HIV/AIDS preventive care and care services provider.

**Background**

DPH's Office of AIDS Programs and Policy (OAPP) contracts with WHC to provide HIV/AIDS case management, mental health counseling, ADAP enrollment screening, medical outpatient services, resistance testing, nutritional counseling, residential rehabilitation, HIV/AIDS counseling and testing, health education and risk reduction services, HIV/AIDS prevention case management and service provider network services. The Agency is located in the Second District.

At the time of our review, WHC had five contracts with OAPP and was paid approximately \$745,000 in OAPP funds from March 2005 to June 2006.

### **Purpose/Methodology**

The purpose of our review was to ensure that the Agency appropriately spent funds in accordance with the County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White Comprehensive AIDS Resource Emergency (CARE) Act. In addition, we determined whether the Agency provided services to eligible participants.

### **Results of Review**

Overall, WHC maintained sufficient controls over its non-cash business operations and appropriately spent funds in accordance with the County contract. The Agency also appropriately allocated shared costs and maintained updated personnel files for their staff. The Agency provided services to clients that met the eligibility requirements.

WHC needs to strengthen controls over cash by resolving reconciling items listed on their bank reconciliations in a timely manner. The reconciliations for two of the three bank accounts reviewed listed reconciling items totaling \$20,804 that ranged from several months to three years old. The bank reconciliations were also not always signed by supervisory personnel documenting their review and approval of the reconciliations.

In addition, WHC billed OAPP for three laptop computers in June 2005 prior to actually ordering and purchasing the equipment and three of eight timecards reviewed were not signed by the employee.

The details of our review along with recommendations for corrective action are attached.

### **Review of Report**

We discussed our report with WHC on July 23, 2007. In their attached response, WHC agreed with our findings and recommendations. We also notified OAPP of the results of our review.

Board of Supervisors  
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We thank WHC personnel for their cooperation and assistance during our review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer  
Jonathan E. Fielding, Director, Public Health Department  
William D. Hobson, Jr., CEO/President, Watts Healthcare Corporation  
Hara Yohannes, Controller, Watts Healthcare Corporation  
Public Information Office  
Audit Committee

**HIV/AIDS PREVENTIVE CARE AND CARE SERVICES  
WATTS HEALTHCARE CORPORATION  
FISCAL YEAR 2006-2007**

**ELIGIBILITY**

**Objective**

Determine whether Watts Healthcare Corporation (WHC or Agency) provided services to individuals that meet the eligibility requirements of the Office of AIDS Programs and Policy (OAPP).

**Verification**

We reviewed the case files for sixteen program participants that received services between January 2005 and December 2005 for documentation to confirm the participants' eligibility for OAPP services.

**Results**

The case files for all sixteen program participants contained documentation to support the participants' eligibility to receive program services.

**Recommendation**

**There are no recommendations in this section.**

**CASH/REVENUE**

**Objective**

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely into the Agency's bank account. In addition, determine whether the Agency maintained adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed the Agency's personnel and reviewed their financial records. We also reviewed the bank reconciliations for November 2005 and December 2005 for three bank accounts.

**Results**

The Agency appropriately recorded and deposited cash receipts timely. However, two of the three bank reconciliations included reconciling items totaling \$20,804 ranging from several months to three years old. When reconciling items are not resolved in a timely manner, misappropriation of cash can go undetected. The bank reconciliations were also not always signed by supervisory personnel documenting their review and approval of the reconciliations.

Subsequent to our review, WHC resolved the reconciling items and appropriately recorded adjustments to their financial records.

**Recommendations****WHC management:**

1. **Ensure that reconciling items are resolved timely.**
2. **Ensure bank reconciliations are reviewed and approved on a monthly basis.**

**EXPENDITURES****Objective**

Determine whether program expenditures were allowable under the County contract, properly classified and accurately billed to the program.

**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation for expenditure transactions billed by the Agency from March 2005 to December 2005, totaling \$6,100.

**Results**

WHC's expenditures were allowable, accurately billed to OAPP and supported by documentation as required. However, WHC billed OAPP for three laptop computers in June 2005 prior to actually ordering and purchasing the equipment. The equipment was purchased and received in December 2005 during a subsequent contract period.

**Recommendation**

3. **WHC management ensure that only actual program costs incurred and expended are billed to OAPP and are applied against the appropriate contract period and budget.**

**INTERNAL CONTROLS****Objective**

Determine whether the contractor maintained sufficient internal controls over its business operations.

**Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

**Results**

The Agency maintains sufficient internal controls over their business operations.

**Recommendation**

**There are no recommendations in this section.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether the Agency's fixed assets and equipment purchases made with OAPP funds are used for the OAPP program and are safeguarded.

We did not perform testwork in this area as the Agency did not purchase fixed assets with OAPP funds.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll is appropriately charged to the OAPP program. In addition, whether personnel files are maintained as required.

**Verification**

We traced payroll expenditures totaling \$12,000 to supporting documentation. We also reviewed the personnel files of eight employees assigned to the OAPP program.

**Results**

WHC's salaries were properly supported and appropriately charged to the OAPP program. The Agency also maintained personnel files as required by the County

contract. However, employees did not always sign their timecards. Specifically, three of eight timecards were not signed by the employee.

**Recommendation**

- 4. WHC management ensure employees sign their timecard.**

**COST ALLOCATION PLAN****Objective**

Determine whether the Agency's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

**Verification**

We reviewed the Agency's Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency from October 2005 to December 2005 to ensure that the expenditures were properly allocated to the Agency's programs.

**Results**

Watts' Cost Allocation Plan complied with the County contract requirements. In addition, the Agency appropriately allocated shared costs.

**Recommendation**

**There are no recommendations in this section.**

## Watts Healthcare Corporation

*A Primary Health Care Organization*  
10300 Compton Avenue ♦ Los Angeles, CA 90002 ♦ 323.564.4331



September 10, 2007

J. Tyler McCauley  
Auditor-Controller  
County of Los Angeles  
1000 South Fremont Avenue  
Building A-9 East, First Floor  
Alhambra, CA 91803

Subject: LA County Auditor-Controller Fiscal Review March 2005 to June 2006  
Recommendations Regarding Watts Healthcare Corporation- A HIV/AIDS Preventive  
Care and Care Services Contractor

Mr. McCauley,

I am in receipt of your draft August, 2007 report regarding Watts Healthcare Corporation (WHCC) as an HIV/AIDS Preventive Care and Care Services Contractor.

The report, while pointing out areas of improvement, was positive and three areas of review generated recommendations. The WHCC plan to achieve recommended changes in fiscal processes is as follows:

1) **Recommendation:**

1. Ensure that reconciling items are resolved timely.
2. Ensure bank reconciliations are reviewed and approved on a monthly basis.

**Corrective Action:**

WHCC management has developed policies and procedures to provide guidance on bank reconciliations. Outstanding Checks older than 120 days will be researched by Finance and Analysis staff for final determination of action needed not later than the 150 days from the check date.

♦ **Crenshaw Community Health Center**  
3756 Santa Rosalia Drive  
Los Angeles, CA 90008  
323.568.5460

♦ **House of Uhuru Substance Abuse Program**  
8805 South Figueroa Street  
Los Angeles, CA 90003  
323.568.5400

♦ **School-Based Health Clinic**  
David Starr Jordan High School  
2265 East 103<sup>rd</sup> Street  
Los Angeles, CA 90002 323.568.7183



2) **Recommendation:**

WHCC management ensure employees sign their time cards.

**Corrective Action:**

A time card may not be signed by an employee, only if the employee is away on paid leave. WHCC Payroll will make sure that employee time cards are signed by employees. Department heads and supervisors were also advised to make sure that employees sign their time cards after they return back from vacation or sick leave.

3) **Recommendation:**

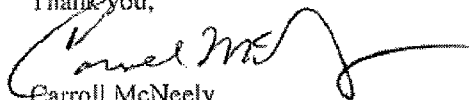
WHCC management ensure that only actual program costs incurred and expended are billed to OAPP and are applied against the appropriate contract period and budget.

**Corrective Action:**

The Management of Watts Healthcare Corporation regrets the error and has put controls in place to ensure that this type of oversight does not happen in the future. Going forward, the Management of Watts Healthcare Corporation will ensure that only program cost incurred and expended are billed to OAPP and are applied against the pertinent contract period and budget. While the items mentioned were obtained for the program, they were acquired late. Management will also make every effort to ensure that purchase orders are processed and that the relevant items are purchased during the period in which the purchase orders are generated.

Please let me know if you have any questions or suggestions regarding these responses to recommended changes.

Thank you,



Carroll McNeely  
CFO- Watts Healthcare Corporation

Cc William D. Hobson, Jr. President & CEO